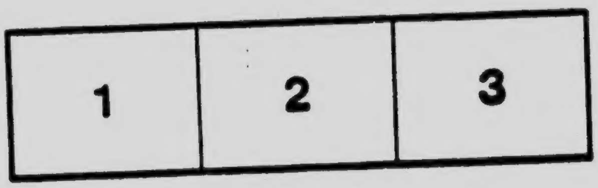
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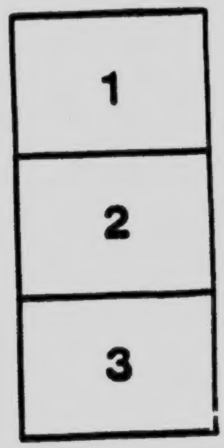
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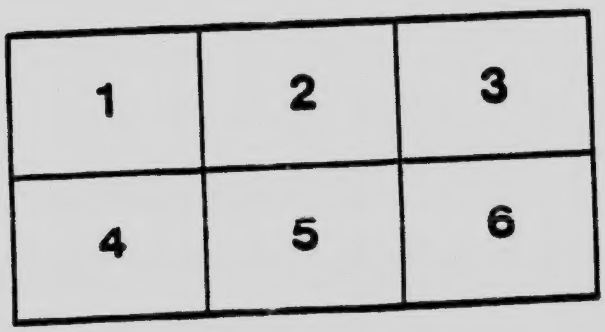
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THE CASE AGAINST TAX-EXEMPT BONDS

OPEN LETTERS

TO THE RIGHT HONOURABLE
SIR ROBERT BORDEN, P.C., G.C.M.G.
PRIME MINISTER OF CANADA
AND TO THE HONOURABLE
SIR THOMAS WHITE, K.C.M.G.
MINISTER OF FINANCE

[An open letter to The Right Honourable The Prime Minister of Canada.]

164 St. James Street,

Montreal, 12th September, 1918.

The Right Honourable
Sir Robert Borden, P.C., G.C.M.G.,
Prime Minister,
Ottawa.

Sir:

It is now evident to the casual observer, as it has long been apparent to the thoughtful student, that money will be one of the most important factors in determining the issue of the great war in which we are engaged.

As Canadians, we are filled with intense pride for the matchless achievements of our gallant countrymen on the battlefields of France and Flanders. And we contemplate with justifiable satisfaction the results of the efforts of our industrial and farming population in maintaining adequate supplies of munitions and food, not only for our own troops, but to no inconsiderable extent, for the fighting forces of Great Britain and our Allies.

In the field of finance our record has not been so satisfactory. At the outbreak of war, experienced financial authorities urged your Government to enact such legislation as would insure the collection of sufficient annual revenues to enable a fair proportion of the cost of the war to be paid out of the current income of the nation. For this purpose Parliament increased customs duties, postage and inland revenue charges, imposed stamp taxes, and demanded for the State a share of the profits earned by the business undertakings of the people.

But none of these forms of taxation directly affected the great masses of the people except as enhanced prices increased the cost of living.

Appeals were vainly made to the Minister of Finance to meet the financial necessities of the state by imposing an income tax.

No sound and comprehensive scheme of national taxation, intended to meet alike the requirements of the present and the demands of the future, has yet been submitted to the Canadian Parliament. The results obtained have been in keeping with the policy pursued.

We have entered upon the fifth year of the war. Although the value of Canada's field crops alone for the years 1916 and 1917 amounted to nearly Two Billions of Dollars, the total sum paid towards the cost of the war out of ordinary revenues during the same period has been only $113,000,000, or much less than has been expended by the Canadian people for pleasure automobiles since the outbreak of war.

Finally the Minister of Finance reluctantly yielded to the demand of an enlightened public opinion and submitted to Parliament toward the close of the session of 1917, a Bill providing for the imposition of a graduated income tax, which has yet to become an effective source of revenue.

The recent belated prohibition of the importation of luxuries and the regulation of other imports, together with an increased tariff, are already lessening our customs revenues. The enactment of prohibitory liquor legislation will inevitably curtail our inland revenue receipts. Business profits cannot be further taxed without dislocating the industrial life of the country. It is perhaps not the least complaint of the commercial community that this tax has not been collected except where the willingness and anxiety of the citizen to pay has been greater than the zeal and industry of the Finance Department to collect.

I observe from a recent number of the *Spectator* that "the true yield of the income tax and super-tax last year in Great Britain was, as nearly as possible, £240,000,000 out of a total income of £707,000,000," and it is further stated that "after the war, when the excess profits duty, at all events in its present form, will have ceased to operate, the income tax will become proportionately an even more important item in the total revenue." What is true in Great Britain in this regard will apply with equal force in Canada.

Any considerable increase in the customs tariff will not be tolerated by Western Canadians. The Minister of Finance obtained the last increase as a war measure, as he did the enactment of the business profits war tax. It is therefore, clearly apparent that reliance must be placed upon the income tax, not only to defray a portion of our war expenditures and to meet the charges on our national debt, but in the future to maintain our very existence as a solvent State.

Having failed for four years to provide sufficient revenues to defray out of current income a fair and adequate proportion of our vast war expenditures, recourse has been had to borrowing. We have by this method placed upon the returning citizen soldier, who has offered his life in defence of the Dominion, a burden of taxation that in operation involves his being called upon to pay an undue share not only for the uniform he has worn and the food he has consumed, but for the very ammunition he has used in the destruction of the enemy.

We have already made four domestic loans.

We are about to make a further issue of Five Hundred Millions of 5½% Victory Bonds.

It has been announced that these bonds are to be issued free from all income taxes, present or future, that have been or may be imposed by the Parliament of Canada. It is true that heretofore our war bond issues have been issued tax-free and at a high rate of interest. In other countries where securities have been issued free from taxation the annual interest rate has been from 10% to 20% less than on bonds subject to taxation. In the United States the first issue of tax-free bonds was at 3½%. The current issue of Liberty Bonds is at 4¼%, with limited income-tax exemption.

It is also imperative that those who lend their money to the nation should do so on exactly equal terms. The rate of return to the artisan must be the same as that to the captain of industry. The farmer must be on an equality with the manufacturer. No sale of national securities should be made, on terms that will result in exempting from taxation the income derived from accumulated wealth, while placing a proportionately increased burden upon the earnings of the industry and labour of the people.

If tax-free securities are issued, the citizen who remained in Canada and made a profit of say a million dollars out of the manufacture of munitions or the sale of food products, which he invested in Victory Bonds, will be relieved from the payment of income tax on $55,000 per annum; while his fellow-citizen who volunteered, fought and returned from service overseas will, during the period of readjustment at least, earn a scanty livehood out of which he must pay, perhaps not income tax, because his earnings may be so small as to be exempt from such form of taxation, but a proportion of the increased taxation in other forms, which the exemption of the income derived from tax-free Victory Bonds in the hands of the war-made millionaire, will thus impose upon him. The inevitable result will be a not unreasonable demand, on the part of our returned men, to be relieved for life from the payment of all income taxes.

If the present issue of Victory Bonds is exempt from all income taxation, the result will be that Sixty-seven and One-half Millions of Dollars, representing the annual income from Canadian tax-free securities, will make absolutely no contribution to the revenues of the State.

The Minister of Finance has publicly stated that the Canadian people are wealthier and more prosperous than ever before. Five and one-half per cent is a high interest rate upon a bond secured by a mortgage upon all the property, real and personal, of the Dominion of Canada and the wealth of its 8,000,000 of people.

I am confident that it does not require tax-exemption to induce Canadians to lend their money to the nation for war purposes. The rich have not asked for such a concession. The average citizen has not even concerned himself to ascertain what tax-exemption means.

Canadians volunteered by hundreds of thousands for military service overseas. They were actuated by a high sense of duty and a lofty spirit of patriotism. Those who remain, I am sure, are not less willing to contribute their "bit" to the common cause by placing their resources, to the extent of their reasonable ability, at the disposal of the State in the form of a loan paying 5½% per annum, half-yearly, and at the same time retaining their place as tax-payers on an equality with those gallant men who by their endeavour have given whatever real value may attach to our country's securities.

For these reasons, and those given in detail in the enclosed communication addressed to the Honourable the Minister of Finance, I am firmly convinced that there is not at this time, either excuse, reason or necessity for the issue of any further tax-free securities by the Dominion of Canada.

I am not insensible to the responsibility resting upon you and your Government. Nothing but a profound sense of duty and a sincere conviction as to the unsoundness, extravagance, and unfairness of financial operations based upon the further issue of tax-free securities, induces me to write this letter.

In the hope of stimulating that free and full discussion which is the essence of Democratic Government, I am mailing copies of this letter to the Members of the Senate, the House of Commons, and to the press.

I have the honour to be, Sir.

Your obedient servant,

I. W. KILLAM.

[An open letter to the Minister of Finance.]

164 St. James Street,

Montreal, 12th September, 1918.

The Hon. Sir Thomas White, K.C.M.G.,
Minister of Finance,
Ottawa.

Sir:

During the past four years the Governments of those countries which have been involved in the great war have had to deal with problems and responsibilities unparalleled in history. To the various Governments there have been delegated more extensive powers than would have been delegated to democratic legislative bodies were it not for the necessities of war.

Responsibility for clear reasoning and wise decision has correspondingly increased as the obligation to secure the sanction of the responsible legislative body to each respective measure has been eliminated.

The responsibility of your department has been enormously increased by reason of the war. Public opinion has also placed upon our financial administration in no uncertain manner the responsibility not only of effectively bearing its part in the burden of carrying on the war, but of maintaining a clear conception of and making adequate provision for the period of readjustment that must inevitably follow the return to productive occupations, not only of our army in the field, but of that large number of our citizens now engaged in war endeavour.

Wise and sound decision as to financial policy is a vital and fundamental necessity to the welfare of our country, and should have regard not only to the demands of the moment but to its effect upon the future economic life of Canada.

It is with great reluctance, but with a deep sense of responsibility and with the strongest feeling of its grave importance, that I venture to protest against a policy which, in the light of conditions as they are, should, I feel, be immediately abandoned as harmful and unsound.

That the tax-exempt war bond is fundamentally injurious to the economic life of Canada, is the prevailing opinion of those competent to judge of its nature and effects. In your statement, published in the press on August 14th, you say:

> It is remarkable and most creditable to Canada that our securities stand so firmly on a 5½% basis.

The present "basis" of our premier securities is not, as you erroneously announce, "5½%," but 5½% plus the "*x*" of tax-exemption, an unknown factor. But, whatever the value of this unknown factor, it should not be attached to the terms of any future borrowing by the Government of Canada until it is fully ascertained and declared.

I need hardly remind you that the cost of money borrowed by provincial governments, cities, municipalities, public utilities, industries, farmers, merchants, and others, is from one-half per cent to three per cent more than the basis fixed by the Government of Canada for its loans. The more the Government pays the

more everybody has to pay. It is, therefore, clearly your fundamental duty so to direct the finances of the country that you may obtain all the money required by the Government at the lowest possible cost, present and future, until maturity, and all the force and power of the Government and the people should be directed to making this cost as low as may be reasonably possible.

The Secretary of the United States Treasury is reported to have recently said, in reference to interest rates :

> The public should realize that if the rate were raised they should simply be lifting themselves by their own boot-straps. If interest rates were to be increased, it would mean just that much more burden on the American people. The situation should be kept sound by stabilizing the rate. It is to the interest of the people, banker and business man, because if the Government raises its bid for money, then all industry will have to pay proportionately more for new capital.

The sale of bonds carrying unrestricted exemption from taxes is extravagant and unsound. Any additional price that may be realized for such tax-exempt securities cannot offset more than, at most, a quarter or a third of the direct loss arising from this method of finance.

You say:

> The Government securities should have priority of market and any special additional advantage which can be given to them.

This applies only to the protection of the supply of money, not to the price paid for it. If the money be in the country, the Government can obtain all the money it requires at a fair rate of interest. If the money be not in the country, it cannot be obtained at any price. Priority of market, restriction of imports of luxuries, foreign investments, and non-essential production are among the very effective means which have been adopted by different countries, at different stages during the war, with a view to practical elimination of competition with Government borrowing.

In Great Britain the income tax and super-tax are effective methods of obtaining revenue from lenders of money. Inadvertently our Government is about to make these taxes, in effect, not taxes on the lenders of money, but taxes on borrowers of money, and has thereby set a dangerous precedent which, unless firmly checked at once, will cause serious loss to the Dominion Treasury and unnecessary hardship to borrowers and producers of all classes throughout the Dominion.

The standard of Dominion Government credit has inadvertently been allowed to attain an unnecessarily high figure. This situation has only recently become fully appreciated by our financial community, and if dealt with now can be remedied with ease by the reversal of the Government policy of conducting its war finance by the issue of tax-exempt bonds.

In your statement you argue strongly that our four outstanding domestic loans to date would have had to bear an additional one-half of one per cent annual interest, if the tax-exemption privilege had been withheld. In other words, that the Canadian people were, and are, not willing to lend their money to the Government at less than 6⅛%. Stated baldly in this way, your argument carries its own refutation, and would never have been advanced had you an adequate appreciation of the value of the bonds you had for sale, your ability to control your market, and the support and buying power of our people.

In reference to our United States financing, you say:

> It was an imperative condition that the Securities should be tax-free, no matter in whose hands they might be held.

They should have been made tax-free only in respect to American holders, and the price realized for these bonds was not increased by one dollar by reason of the neglect to retain the power to tax such income when received by residents of Canada.

If the Government had prohibited by Order-in-Council the purchase by our citizens of Anglo-French, Canadian and other Allied loans in the United States, as undoubtedly should have been done, and if a reasonably substantial income tax had been imposed from the beginning of the war upon the Canadian people, with its consequent influence upon the importation of luxuries, our United States exchange situation would have been greatly benefited and the necessity for United States financing might have been entirely obviated.

It is an elementary principle that public offerings of securities should be made to all subscribers at the same price and on the same terms. In our four previous loans this established principle has been set aside through failure to realize the full significance of the situation arising out of the ultimate adoption of the graduated income tax. But now that the Government and the entire financial and business community is seized of the fact that the maintenance of the graduated income tax gives to tax-exempt bonds an unequal value in the hands of different purchasers, it is not desirable that the Government should issue any further bonds on terms that may be construed as an attempt to take unfair advantage of the limited financial knowledge of that great majority of the people of Canada who will be asked to subscribe for the bonds on patriotic grounds.

Our national security must have the same value in the hands of every individual Canadian, no matter what may be the extent of his personal estate. The people of Canada desire a graduated income tax to be effectively enforced. Continuation of the issue of tax-exempt bonds is calculated to nullify the graduated income tax.

This matter is too serious to brook silence or delay.

For the revenue necessary to pay off our accumulated war debts and for the exports essential to the discharge of our external obligations we must depend almost wholly upon the development of our agricultural and other natural and industrial resources. Any financial policy which will retard this development must at all costs be avoided. From your statement I do not think you appreciate this fact. You say:

> I do not for a moment believe that enterprising citizens, in a country with such possibilities as ours, will be deterred from engaging in business or industrial activities because they can invest in tax-free Dominion securities yielding a comparatively low rate of interest.

Many of our citizens are calling in their mortgage loans and selling out their municipal and industrial securities, and may do so to an even more serious extent because of the opportunity they have to invest in tax-free Dominion securities yielding a comparatively high rate of interest, viz., 5½% plus "*x*." In many individual cases "*x*" amounts to 5% and even 10%, making a total investment return of 10% or 15% on Dominion Government securities.

The fact must be faced that industrial and agricultural development will be checked and suppressed very materially until such time as the proposed great mass of 15-year 5½% non-callable tax-exempt bonds—which you are about to offer not only for new money, but to offer under conversion rights to the extent of some $350,000,000 more of the first and fourth loans of earlier maturities —have advanced in market price to a premium of some 15% from the issue price. That is, before this millstone is removed from the neck of industry, there must be an appreciation in market value from the price obtained by the Government on bonds now outstanding and to be issued under the proposed terms of the forthcoming loan, without any regard whatever to the loan which will have to be made in 1919, of perhaps $175,000,000, provided the great majority of our inexperienced small investors shall become fully informed of the respective real values of the five and fifteen-year bonds, and of the valuable conversion rights attached to their holdings of the five-year bonds of last year's loan.

What of our refunding operations? In regard to this important matter, you say:

> I look forward to the period of our refunding operations after the war with the hope and expectation that if our Dominion securities are given the special privilege of tax exemption, we shall, with the cheaper money conditions, be able to gradually reduce our annual interest charges. This would mean much to our budgets in the periods succeeding the war.

It is reasonable to expect cheaper money conditions to follow the war, and this has been recognized by a score of nations in their war financing. These other nations have also recognized the advisability of reserving the right to retire their long-term bonds at par before maturity. We have no right to gamble with the possibility of our refunding operations taking place in any other market than our own. It is, therefore, incumbent upon us to so govern our financial policy that our refunding may be carried out smoothly at an early and advantageous opportunity. I respectfully submit that the forthcoming loan should be made callable in whole or in part at par at any time after the war, and the people of Canada would undoubtedly accept this provision as being strongly in the national interest.

This important feature was evidently not considered in the creation of $246,000,000 5½% tax-exempt bonds due 1937, in respect to which no option of prior redemption at par has been retained. It is obvious that no economical refunding operation can be carried out until 1937, or until the market price of these bonds shall have been advanced to perhaps 115 per cent of par. This fact has more recently been recognized by discriminating buyers. Some $50,000,000 of Victory Bonds have been dealt with by the Stabilizing Committee, and this is not by any means entirely due to selling pressure—it has been due rather to buying pressure, and the work of the Committee in respect to 20-year bonds may be said rather to have been very largely directed to holding down the market price by solicitation of sales to fill the buying orders. I am certainly of the opinion that if it were not for this and the expectation of an almost unlimited further supply of 15-year 5½% non-callable tax-exempt bonds, the market price of the 10 and 20-year 5½% bonds and of the long-term 5% bonds would have very materially advanced, with corresponding benefit to our Government finance.

The issue of another billion or even half-billion 15-year 5½% non-callable tax-exempt bonds will make the position incomparably more difficult of remedy, and seriously increase the difficulties of after-war refunding.

The refunding of our $100,000,000 of 5% notes which mature in New York on October 1, 1919, should be accomplished with bonds which are taxable if owned in Canada. $25,000,000 of 5% bonds mature in New York on April 1, 1921; $256,000,000 additional 5% taxable bonds, of which $50,000,000 were issued in New York, and are partially held in Canada, should either remain at 5% plus "*x*," or be offered conversion into 5½% taxable bonds. Of the $545,-000,000 outstanding 5½% tax-exempt bonds, $230,000,000 mature in 1922, and it is important that these should also be refunded by taxable bonds.

It is thus apparent that the most important obstacle to the reduction of the value or the elimination of "*x*" lies in the existence of $69,000,000 of 5½% bonds, due 1927, and $246,000,000 of 5½% bonds due 1937. These bonds have been sold, and the tax-exemption privilege cannot be repudiated. The menace of "*x*" lies in the existence of this large issue of 20-year bonds and the proposed offering of $500,000,000 of 15-year 5½% bonds with the attendant conversion privilege, which under the terms of the respective issues must be thrown open to at least $51,000,000 of 5% bonds due in 1925 and $230,000,000 of 5½% bonds due 1922, and $69,000,000 of 5½% bonds due 1927.

If $500,000,000 of 15-year 5½% tax-exempt bonds are offered in November, we may then have outstanding about one billion dollars of 15- and 20-year 5½% non-callable tax-exempt bonds. This would make it almost impossible thereafter economically to change our war loan policy to the basis of taxable bonds.

Would it not be better arbitrarily to offer premiums and secure conversion of part at least of these 10- and 20-year non-callable tax-exempt bonds into taxable bonds with a great net saving to the Treasury of Canada?

The idea of issuing any further long-term 5½% non-callable tax-exempt bonds should be abandoned. An unlimited issue of 5½% fully taxable bonds should be made at par, with provision for the conversion of the 1927 and 1937 5½% tax-exempt bonds at fair premiums into taxable bonds at par. The 5% tax-exempt bonds would undoubtedly in a relatively short time.

like the United States Liberty 3½% tax-exempts, rise to a price of over par. The damage occasioned by our mistaken policy would thus be kept within reasonable bounds, and Canadian Government credit re-established on a 5½% basis.

The further depreciation in property and security values, which has only begun to be felt as a result of the insidious and destructive influence of the unknown factor "x," will be checked, and perhaps eliminated. The depreciation of values, due to a 5½% Government rate for long-term bonds, alone is great enough and serious enough to make it of most vital importance to escape the further undermining influence of "x."

Notwithstanding the great strain which this war has brought upon the Government of Great Britain, the Chancellor of the Exchequer and the bankers of Great Britain, working hand in hand, can justly claim first place in the financial skill with which their war financing has been conducted. The economic structure of Great Britain has been developed with skill and foresight, and has stood the test of time. Great Britain has sold a limited amount of 4% bonds at par, exempt from income tax, but not from super-tax, simultaneously with the sale of fully taxable 5% securities. But no critic successfully may contend that, notwithstanding the very large income taxes imposed upon the British people, any purchaser of these bonds has received material exemption from taxes for which he has not fully paid the price when compared with his neighbour, who may have bought 5% securities subject to all taxation.

The Australian people have subscribed for fully as many bonds per capita as the Canadian people, at the price of par and at 4½% tax exempt, and their Government, recognizing the error of the policy of tax-exemption in Government finance, has now adopted the policy of financing by the issue of 5% taxable securities.

In respect of the annual interest, approximately $40,000,000 on $750,000,000 of domestic issues now outstanding, you say:

> It is extremely improbable that we should derive more than $1,000,000, or at most $1,500,000, additional revenue from the taxation of income derived from this body of securities.

You estimate, therefore, that on every $40,000,000 of annual interest income of the people of Canada only $1,000,000 to $1,500,000—or 2½% to 3¾%—can be collected under the Income Tax Act. If this estimate be correct then it conclusively proves that the amount which will be derived from the income tax is totally inadequate for our needs, and this fact constitutes a strong argument against excepting the interest on the bonds from its incidence and in favour of increasing the tax.

A vitally important, fair, and effective means for securing war revenue is available in a graduated income tax, provided that each and every one of us is made to contribute justly and fairly, according to his respective ability, a liberal portion of his current income.

After four years at war the returns from this source are not, to say the least, a source of substantial revenue, due largely to the fact that the imposition of the tax was delayed for three years.

The United States imposed an increased income tax the first year after they entered the war, and a committee of the Congress now in session has very wisely determined that their normal tax for this year should be increased from 4% to 12%.

Great Britain has rightly imposed very substantial taxes on all earnings in excess of £130 per year, and there is in force to-day a minimum tax of 11% graduated to 52½%, which shows that there is almost no exemption whatsoever on the income derived by the people from the national loans.

It was and is clearly the duty of the Government to ensure that those who remain at home and participate in the benefits of the great increase in our national wealth, resulting from the exploitation of our agricultural and other natural and industrial resources and activities, provide and extinguish in liberal measure from current revenue a most substantial part of the constantly increasing cost of carrying on the war.

In your statement to the Canadian press on August 5th, you informed the Canadian people that they have "been able as a nation, not only to earn the entire cost of the war to date, but to make a very large national increase in wealth as well." How much of these earnings and this increased national wealth has been appropriated by the Government and used to defray the cost of the war? The Director of Public Information in a recent statement points out that, during the two fiscal years to March 31st, 1918, there has been applied to war expenditures, by way of surplus of revenue over ordinary and capital outlays, the sum of $113,000,000.

This amount is probably less than our country will have to face each single year, beginning with 1920, for interest and pensions alone.

It is quite evident, therefore, that the provision for war expenditure from the incomes of our people has to date been far too small and must be increased, not only in justice to our army, but as a necessary measure for the protection of the future economic welfare of our whole people.

Let us consider the position of a future Finance Minister submitting a budget to Parliament at a time when the safe deposit vaults of Canada are filled with 5½% long-term tax-exempt bonds. Will that Minister be able to approach the House with confidence, with a proposal materially to raise the income tax, to impose other taxes on invested capital, knowing that such action would immediately dislocate and change the ratio which may then exist between the value of the large holdings of Government securities and all other forms of invested wealth representing the nerve-system of the industrial structure of the Dominion? Who knows how long the war may last? Who knows how many bond issues our Government may yet have to offer? Who knows what taxes our Government may yet be forced to impose upon our people?

If we issue another billion or even half-billion 15-year 5½% non-callable tax-exempt bonds, the position will be incomparably more difficult of remedy. If further tax-exempt bonds be issued, the unknown factor "*x*" will add to the difficulties of after-war refunding. If tax-exemption be firmly dealt with now, the situation in respect to our forthcoming and all future loans will be clarified instead of remaining clouded and obscure.

Further to demoralize the business of Canada or to nullify the graduated income tax by the creation of a billion dollars or more of long-term non-callable bonds, bearing the rate of 5½% plus "*x*," would be an outrage and an attempt to play upon the financial ignorance of the great majority of the people who are to be asked to subscribe for the bonds.

Our Government policy in war finance should have been to issue our domestic loans to our own people, fully taxable at a rate of interest fixed after careful deliberation. The following matters should have been carefully considered:

1. The rate of interest paid by our chartered banks for deposits—the Government's only real and tangible competitor—having regard to the large sums of money involved.

2. The compensation which should reasonably be paid by way of extra interest for the use of money by the Government for a period of years as against the interest paid on demand or short-time deposits.

3. The standard so fixed as the "yield" or "basis" of Government bonds vitally affects the values of all real estate, securities, and other property throughout the country, and whatever rate be so fixed must have an important and fundamental influence upon the industrial productive activities of the country for many years to come.

4. It is not necessary to make interest rates unduly high in order to restrict non-essential production, other measures having been generally adopted, and with success, by belligerent countries.

5. An unduly high standard or scale of interest rates will cause hardship to insurance companies, financial institutions and individuals with large holdings of long-term securities accumulated prior to the war.

6. The Government should reserve power to facilitate its own refunding operations at lower interest rates after the war, by retaining the right to call at par any or all outstanding bonds at any convenient time after termination of the war.

7. Government finance should be carried out with economy, and without fear of market conditions, external or internal.

8. Market and other conditions must be made to defer to Government finance and mould themselves to meet the Government requirements.

If this had been done, there can be no question that all our war bonds could have been sold to our people at a rate to yield not exceeding 5½%. Tax-exemption was not demanded; on the contrary, no income-tax measure had been enacted until after our first three loans, and even during the fourth many did not realize that the interest was tax exempt when they subscribed to the bonds.

Those who will be asked to lend to the Government are just as willing to pay income tax on their interest return of 5½% as they are to pay income tax on the 3% allowed them by our chartered banks.

Tax-exemption is wrong. Two wrongs have never made a right. There is only one remedy for wrong, and that is to correct it. The cost of correction is small; the consequences of procrastination will be very great.

All that is needed is courage and confidence on the part of the Government—courage to face the realities of the situation and confidence in the patriotism of the people.

I am not insensible to the claim which the Government has to the whole-hearted co-operation of all classes of our people in the carrying on of the war, and it is in this spirit that I have ventured to bring to your notice conclusions which, I am convinced, reflect the mature judgment of an overwhelming majority of our bankers and business men, who have given careful consideration to the question at issue.

In the hope of stimulating that free and full discussion which is the essence of Democratic Government, I am mailing copies of this letter to the Right Honourable the Prime Minister, the Members of the Senate, the House of Commons, and to the press.

I have the honour to be, Sir,

Your obedient servant,

I. W. KILLAM.